REPORT OF EXAMINATION
OF THE

DANIELSON NATIONAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

Participating State
and Zone:

California

Filed October 25, 2006

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Los Angeles, California
September 1, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioner:

Pursuant to your instructions, an examination was made of the

DANIELSON NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 444 West Ocean Boulevard, Long Beach, California 90802.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

This examination was conducted concurrently with the examination of the Company's parent, National American Insurance Company of California and an affiliate, Danielson Insurance Company.

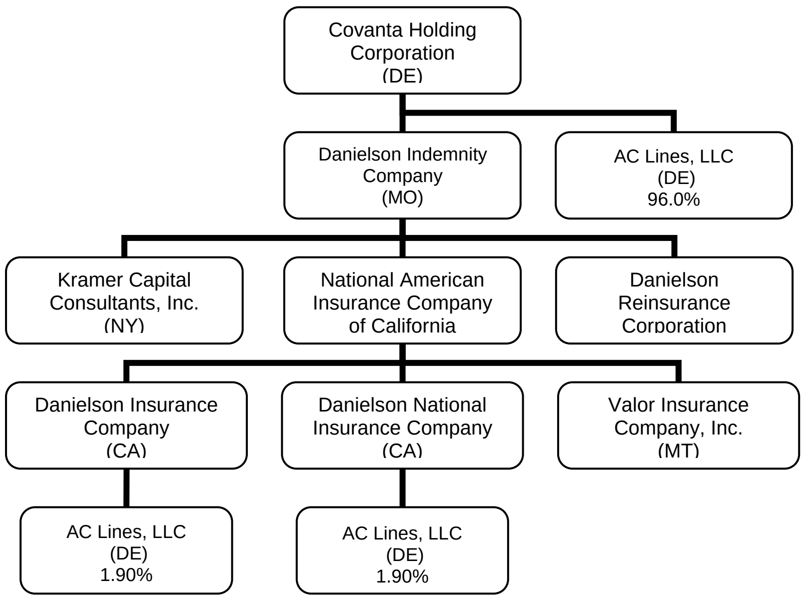
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

On July 6, 2006, the Company's parent, Danielson Indemnity Company, submitted to the California Department of Insurance (CDI), preliminary comments on a proposed reorganization of the holding company structure, through the following transactions: (1) the merger of Danielson Insurance Company with and into National American Insurance Company of California and (2) the formation of a new holding company, in the form of a Delaware corporation, in order to allow for the creation and implementation of a stock award and option program. As of the date of this examination report, Danielson Indemnity Company has not received an approval of these transactions from the CDI.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2005 follows:

Directors

Name and Residence	Principal Business Affiliation
Jon M. Schneider Signal Hill, California	President and Chief Financial Officer National American Insurance Company of California
Anthony J. Orlando New Providence, New Jersey	Chief Executive Officer Covanta Holding Corporation
Craig D. Abolt (**) Franklin Lakes, New Jersey	Chief Financial Officer Covanta Holding Corporation

Principal Officers

Name	Title
Jon M. Schneider	President and Chief Financial Officer
Kevin Grant	Vice President – Automobile Claims
Vahe Khachaturian	Vice President – Information Systems
Edward J. Lill (*)	Vice President – Tax of Corporations
Donald G. Hein	Assistant Vice President, Controller and Secretary

(*) Appointed as an officer on February 13, 2006
(**) Resigned on August 18, 2006 and replaced by Timothy Simpson on September 1, 2006

Intercompany Agreements

Executive, Professional, Administrative and Loss Adjustment Agreement: The Company is party to an expense sharing agreement with its parent, National American Insurance Company of California (NAICC) and affiliates Danielson Insurance Company (DIC) and Valor Insurance Company, Inc. (Valor). Under the terms of the agreement, the Company and its affiliates are required to reimburse the parent for executive services, professional services, and administrative expense items on a prorata basis predicated on the parent's actual expense ratios. The Company and affiliates are obligated to pay amounts due within 30 days of the mandated quarterly billings to the parent. This agreement was submitted by NAICC in 2004 and it was approved by the California Department of Insurance (CDI), effective January 1, 2006. During the three years of the examination period the Company and its affiliates paid the following to NAICC:

Subsidiary	2003	2004	2005	Total
DNIC	$1,095,200	$412,310	$380,176	$1,887,686
DIC	1,098,012	633,232	581,800	2,313,044
Valor	50,000	138,000	148,000	336,000

Consolidated Federal Income Tax Agreement: Although there is no written agreement, the Company's taxable income is included in the consolidated federal income tax return of its ultimate parent, Covanta Holding Corporation (CVA). The Company submitted a formal written agreement in 2005 in which the CDI has reviewed and provided comments. The Company expects that a revised written agreement will be re-submitted to the CDI in late 2006.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, the Company was licensed to transact multiple lines of property and casualty insurance in California, Idaho, Kansas and Oregon.

During the examination period, the principal lines of business written by the Company were non-standard automobile for personal and commercial risks. In 2005, the Company wrote $6.8 million of direct premiums all in California in non-standard personal automobile insurance.

The Company's sole source of premium is marketed, administered and underwritten through a general agent, SCJ Insurance Services (SCJ). SCJ has produced all of the Company's non-standard private passenger automobile business in California since 2005.

REINSURANCE

Intercompany Pooling

The Company and its parent National American Insurance Company of California (NAICC), and its affiliate Danielson Insurance Company (DIC), are members of an Intercompany Pooling Agreement. Under the terms of the agreement, all business net of non-affiliated reinsurance is combined. The Company and DIC each have a 10% participation interest in the pool, with NAICC having the remaining 80% interest. Effective January 1, 2006, the participation of the pool was modified with the Company retaining 50%, DIC 40% and NAICC 10%. The Company's parent is planning a reorganization in which NAICC and DIC will merge. If and when the merger occurs the pooling percentages will be equally split between the Company and NAICC.

Assumed

Assumed business is limited to the Company's participation in the above referenced Intercompany Pooling Agreement.

Ceded

The Company entered into a quota-share reinsurance arrangement with Transatlantic Reinsurance Company (TRC) effective January 1, 2005. The Company retained 72% of the premiums, loss and allocated loss adjustment expenses of the underlying policies produced by SCJ Insurance Services (SCJ). The Company cancelled the treaty effective January 1, 2006, on a cut-off basis, assuming all unearned premiums.

An analysis of this reinsurance agreement with TRC by a Casualty Actuary from the California Department of Insurance disclosed that this agreement does not appear to meet the requirements of Statement of Statutory Accounting Principles (SSAP) No. 62 in that the reinsurer is not assuming significant insurance risk under the reinsured portions of the underlying insurance agreement, and based upon the loss history, it is not reasonably possible that TRC may realize a significant loss from the transaction. As a result and in accordance with Section 9 of SSAP No. 62, the agreement was incorrectly accounted for as reinsurance and should have been reported as a deposit. However, the accounting treatment differences had no significant impact on capital and surplus and the treaty was cancelled in 2006, therefore no adjustments have been made in this examination report.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Underwriting and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 9,452,8897	$	$ 9,452,889	(1)
Cash and short-term investments	1,421,877		1,421,877	
Other Invested Assets	153,413		153,413	
Investment income due and accrued	110,583		110,583	
Uncollected premiums and agents' balances in course of collection	317,432	150	317,282	
Amounts recoverable from reinsurers	145,226		145,226	
Net deferred tax asset	57,425,422	57,383,522	41,900	
Guaranty funds receivable or on deposit	100		100	
Total assets	$ 69,026,942	$ 57,383,672	$ 11,643,270	

Liabilities, Surplus and Other Funds			
Losses		$ 1,489,628	(2)
Loss adjustment expenses		245,162	(2)
Commissions payable, contingent commissions and other similar charges		144,977	
Other expenses		48,140	
Taxes, licenses and fees		159,152	
Unearned Premiums		100,194	
Ceded reinsurance premiums payable		127,376	
Payable to parent, subsidiaries and affiliates		239,337	
Aggregate write-ins for liabilities		65,026	
Total liabilities		2,618,992	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	4,520,556		
Unassigned funds (surplus)	1,903,722		
Surplus as regards policyholders		9,024,278	
Total liabilities, surplus and other funds		$ 11,643,270	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2005

Statement of Income

Underwriting Income		
Premiums earned		$ 1,267,719
Deductions:		
Losses incurred	$ 652,512	
Loss expense incurred	407,977	
Other underwriting expenses incurred	497,689	
Total underwriting deductions		1,558,178
Net underwriting loss		(290,459)
Investment Income		
Net investment income earned	$ 444,269	
Net investment income		444,269
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 1,180	
Finance and service charges not included in premiums	598,638	
Aggregate write-ins for miscellaneous income	(558,511)	
Total other income		41,307
Net income		$ 195,117

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004		$ 8,753,040
Net Income	$ 195,117	
Change in net unrealized capital gains	100,898	
Change in net deferred income tax	57,233,980	
Change in nonadmitted assets	(57,258,757)	
Change in surplus as regards policyholders for the year		271,238
Surplus as regards policyholders, December 31, 2005		$ 9,024,278

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Surplus as regards policyholders, December 31, 2002, per Examination			$ 6,398,892
	Gain in Surplus	Loss in Surplus	
Net income	$ 935,276	$	
Change in net unrealized capital gains	100,898		
Change in net deferred income tax	57,141,718		
Change in nonadmitted assets		57,087,506	
Surplus adjustment: paid in	1,600,000		
Aggregate write-ins for losses		65,000	
Totals	$ 59,777,892	$ 57,152,506	
Net increase in surplus as regards policyholders			2,625,386
Surplus as regards policyholders, December 31, 2005, per Examination			$ 9,024,278

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

A review of the Company's bond investments disclosed that two of the bonds exceeded the limitations prescribed by California Insurance Code (CIC) Section 1197. CIC Section 1197 limits a company's investment of excess funds to any one borrower in an amount not exceeding 10% of capital stock and surplus or 1% of its admitted assets, whichever amount is greater. As of year-end 2005, the bonds owned by the Company exceeded these limitations by $195,750 as shown below:

Bond Description	12/31/05 Amortized Value	Limitation Per CIC Section 1197	Over Investment Amount
IBM Corp.	$1,035,206	$902,428	$132,778
SBC Communications Inc NT	965,400	902,428	62,972
Total over CIC Section 1197 limitation			$195,750

It is recommended that the Company review its investment policies for compliance with CIC Section 1197 limitations.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2005 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance - Ceded (Page 6): The reinsurance agreement with TRC did not appear to meet the requirements of SSAP No. 62 in that the reinsurer is not assuming significant insurance risk under the reinsured portions of the underlying insurance agreements and, based upon the loss history, it is not reasonably possible that TRC may realize a significant loss from the transaction. As a result and in accordance with Section 9 of SSAP No. 62, the agreement was incorrectly accounted for as reinsurance and should have been accounted for as a deposit. This agreement has been cancelled, effective January 1, 2006.

Bonds (Page 11): It is recommended that the Company review its investment policies for compliance with California Insurance Code (CIC) Section 1197 limitations.

Previous Report of Examination

Summary of Significant Findings (Page 2): It was recommended that the Company implement actions to improve its capital and surplus position as soon as possible. The Company's parent contributed $1.6 million in 2003 to improve the Company capital and surplus position.

Management and Control – Intercompany Agreement (Page 5): It was recommended that the Company formally submit its amended Executive, Professional, Administrative and Loss Adjustment Agreement to the California Department of Insurance (CDI) for approval. It was also recommended that the Company formalize its tax arrangement with its parent through a written agreement. A revised written agreement was re-submitted to the CDI on August 10, 2006. As of the date of this report, the Company has not received any comments or an approval.

Corporate Records (Page 6): It was recommended that the Company implement procedures to ensure compliance with CIC Sections 735, 1200 and 1201 and corporate bylaws. The Company Complied with this recommendation.

Accounts and Records (Page 11): It was recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the financial statements to individual records. In addition, it was recommended that the Company update its disaster recovery plan. The Company complied with this recommendation.

Bonds (Page 17): It was recommended that the Company review its investment policies for compliance with CIC Section 1197 limitations. The Company still has investments that exceed the limitations.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_______/S/______________________

Samuel J. Salzman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California